

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
William L. Massey, and Nora Mead Brownell.

California Independent System Operator Corporation

Docket No. ER03-875-000

ORDER APPROVING EXPEDITED IMPLEMENTATION OF TARIFF REVISION

(Issued June 24, 2003)

**I. Introduction**

1. In this order we authorize the expedited implementation of an amendment (Amendment No. 52) to the California System Operator Corporation (CAISO) Open Access Transmission Tariff (Tariff). In Amendment No. 52, the CAISO proposes to eliminate the requirement that bids be limited to \$0/MWh, if submitted into the CAISO real-time energy market by generation facilities that are located beyond the CAISO Control Area (System Resources or imports). This change was previously approved by the Commission on January 17, 2003<sup>1</sup> to become effective on the date of implementation of Phase 1B of the CAISO's Comprehensive Market Redesign (MD02).<sup>2</sup> Phase 1B was originally intended to be implemented prior to Summer 2003, but has now been delayed until Fall, 2003. By authorizing the early elimination of the zero-bid requirement, this order benefits customers by encouraging imports into California, thereby enhancing reliability, during the peak Summer demand period.

**II. Background**

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<sup>1</sup>California Independent System Operator Corporation, 102 FERC ¶ 61,050 (2003), (January 17 Order).

<sup>2</sup>Filed by the CAISO on May 1, 2002 in Docket No. ER02-1656-000.

2. On October 11, 2002,<sup>3</sup> the Commission issued an order in which it held that System Resources bidding into the CAISO Control Area must bid \$0/MWh and be "price-takers." The CAISO filed a request for rehearing of the October 11 Order<sup>4</sup> in which, among other things, it requested that the Commission reverse its decision requiring bids from System Resources to be submitted at \$0/MWh. In the January 17 Order, the Commission agreed to reverse its previous decision and to allow System Resources to submit bids greater than \$0/MWh, but required that the prohibition on System Resources setting the market clearing price (MCP) be maintained. The Commission agreed that "eliminating a strong disincentive to suppliers outside of the CAISO Control Area to bid into the CAISO markets through removal of the zero-bid requirement outweighs current concerns regarding the possibility of 'megawatt laundering'"<sup>5</sup> However, the Commission believed it appropriate to leave the requirement in place until implementation of Phase 1B of MD02, which was expected to be implemented before Summer 2003.

### **III. Filing**

3. On May 27, 2003, pursuant to section 205 of the Federal Power Act (FPA),<sup>6</sup> CAISO filed with the Commission Amendment No. 52 to the CAISO Tariff, in which it seeks approval from the Commission for expedited implementation of the tariff amendment to help ensure that it has sufficient energy resource available to meet peak demands in the Summer period, 2003.

4. In the instant filing, the CAISO states that implementation of Phase 1B of MD02 has been delayed, due in part to delays in delivery of the requisite software for the economic dispatch system. It is now anticipated that Phase 1B will not be implemented until Fall, 2003. Thus, if elimination of the zero-bid requirement continues to be linked to the implementation of Phase 1B, it will remain in place for the Summer peak period of 2003. The CAISO therefore requests that the Commission approve the expedited implementation of the tariff amendment, which will eliminate the zero-bid requirement, in order to enhance

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<sup>3</sup>California Independent System Operator Corporation, 101 FERC ¶ 61,061 at 61,222 (2002), (October 11 Order).

<sup>4</sup>Filed by the CAISO on November 8, 2002 in Docket No. ER02-1656-000.

<sup>5</sup>California Independent System Operator Corporation, 102 FERC ¶ 61,050 at 61,050 (2003).

<sup>6</sup>16 U.S.C § 824d (2000).

reliability during the peak Summer period. The CAISO asserts that there is no technical reason why elimination of the zero-bid requirement cannot occur prior to the implementation of Phase 1B. Moreover, it states that “immediate removal of this bid limit will encourage System Resources to participate in CAISO Markets during the critical Summer peak periods when California depends on such imported Energy.”<sup>7</sup>

5. In support of its request, the CAISO notes that System Resources have significantly reduced their participation in CAISO real-time markets as compared to the same period last year. The CAISO states that it has learned from staff of some System Resources that the decline in participation is partly due to the zero-bid requirement, because it introduces the significant risk that imported energy will be settled at a price below their cost. Thus, System Resources confront a substantial risk of earning a price below production costs when participating in CAISO real-time markets if they are limited to a zero-bid requirement. Eliminating the zero-bid requirement would reduce this risk by giving suppliers of imported energy the opportunity to specify price levels at which they are willing to be dispatched. The CAISO notes that “although System Resources still would not be eligible to set the MCP and would not be guaranteed to be dispatched at their bid price, by being pre-dispatched in economic merit order, System Resources are significantly more likely to be settled at an MCP that is close to, if not greater than, their non-\$0/MWh bid price.”<sup>8</sup> The CAISO believes that this is critical to encouraging System Resources to participate in CAISO markets during the Summer of 2003.

#### **IV. Notice, Interventions, Protests and Comments**

6. Notice of CAISO’s filing was published in the Federal Register<sup>9</sup> with interventions and comments due on or before June 17, 2003. Subsequently, on June 2, 2003, the Commission issued a notice shortening the date by which interventions and protests are due to June 10, 2003.

7. The following parties filed timely, unopposed motions to intervene: Duke Energy North America L.L.C. and Duke Energy Trading and Marketing L.L.C., Dynegy Power

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<sup>7</sup>Application by the CAISO filed with the Commission May 27, 2003 in Docket No. ER03-875-000 at p. 4.

<sup>8</sup>Application by the CAISO filed with the Commission May 27, 2003 in Docket No. ER03-875-000 at p. 5.

<sup>9</sup>68 Fed. Reg. 33931 (2003).

Marketing, Inc., El Segundo Power L.L.C., Long Beach Generation L.L.C, Cabrillo Power I L.L.C., Cabrillo Power II L.L.C., Williams Energy Marketing & Trading Co., Modesto Irrigation District, Transmission Agency of Northern California, and City of Redding, California. The following parties filed timely, unopposed motions to intervene and comments: California Electricity Oversight Board (EOB), Powerex Corp. (Powerex), and Coral Power L.L.C. (Coral). FPL Energy, L.L.C. (FPL) filed a motion to intervene out of time and comments. California Department of Water Resources filed a motion to intervene out of time. Southern California Edison Company (SCE) filed comments.

8. Coral, EOB, Powerex, FPL and SCE support the proposed amendment. No comments were filed in opposition to the amendment.

## **V. Discussion**

### **Procedural Matters**

9. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the timely, unopposed motions to intervene of the movants (other than FPL) listed above make them parties to this proceeding. Given the absence of undue prejudice or delay, we find good cause to grant the untimely, unopposed motions to intervene by FPL and the California Department of Water Resources.

### **Elimination of Zero-bid Requirement**

10. Allowing System Resources to submit bids greater than \$0/MWh provides them the opportunity to communicate to the CAISO their economic preference for dispatch. The CAISO can then more appropriately place System Resources' bids in economic merit order, which allows the CAISO to dispatch units in a more efficient manner. This also provides System Resources increased opportunity to recover their production costs. Given the delay in implementation of Phase 1B of MD02, and California's reliance upon System Resources to meet peak Summer demand, we find it beneficial to eliminate the zero-bid requirement prior to the implementation of Phase 1B, encouraging the availability of additional resources for the Summer peak season.

11. At the time we approved the elimination of the zero-bid requirement, the Commission was still highly concerned over the possibility of "megawatt laundering." The Commission therefore believed it appropriate to leave the requirement in place until implementation of Phase 1B of MD02 because the new economic dispatch system would

make zero bids more problematic.<sup>10</sup> The continued stabilization of the markets, and the recognition of the importance of imports to the CAISO in the coming summer months, leads us to believe that the continued prohibition on imports setting the MCP is sufficient protection against any remaining opportunities for “megawatt laundering.” As we stated in the January 17 Order, the Commission believes that eliminating a strong disincentive to suppliers outside the CAISO Control Area to bid into CAISO markets through removal of the zero-bid requirement outweighs any remaining concerns regarding the possibility of “megawatt laundering” and finds it reasonable to eliminate this requirement to address the CAISO’s concerns regarding supply conditions during the Summer peak period.

12. We find that good cause has been shown, in accordance with the Commission’s Rules and Regulations,<sup>11</sup> for waiver of the prior notice requirement.

The Commission orders:

Amendment No. 52 to the CAISO Tariff, being the expedited elimination of the zero-bid requirement for System Resources, is hereby authorized, effective one day after the issuance of this Order.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.

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<sup>10</sup>In Docket Nos. ER02-1656-010, et al., market participants and the CAISO warned that, under the new economic dispatch system, if bids from outside of the CAISO control area are required to bid \$0/MWh in order to be price-takers, import bids will likely clear at \$0/MWh when any decremental bid is greater than \$0/MWh. Because bidders outside of the CAISO control area could be paid \$0/MWh for their energy, these parties contended that the zero-bid requirement in conjunction with the implementation of the new economic dispatch software would result in a loss of participants and supply in the CAISO markets.

<sup>11</sup>18 C.F.R. § 35.11 (2003).